

GENERAL INFORMATION

The Community Reinvestment Act ("CRA") requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of Western Bank of Wolf Point, Wolf Point, Montana, prepared by the Federal Reserve Bank of Minneapolis, the institution's supervisory agency, as of October 28, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory."

Several factors support rating the bank's CRA performance satisfactory. First, the bank lends to borrowers of different income levels and to farms and businesses of different sizes. Second, the bank's distribution of loans throughout its assessment area is reasonable. Third, the bank's net loan-to-deposit ratio shows that it is willing to extend consumer, residential real estate, commercial, and agricultural loans. Finally, the bank originates a significant majority of its loans in the assessment area.

DESCRIPTION OF INSTITUTION

Based on its size and financial condition, the bank is able to meet the credit needs of the communities in its assessment area effectively. The bank received a satisfactory rating at its last CRA evaluation. The bank operates a full-service office in Wolf Point, Montana, which is open from 9:30 a.m. to 3:00 p.m. Monday through Thursday and 9:30 a.m. to 6:00 p.m. on Friday. The bank's drive-up facility is open 8:00 a.m. to 5:00 p.m. Monday through Thursday and 8:00 a.m. to 6:00 p.m. on Friday. The bank also operates two cash-dispensing automated teller machines ("ATM"). One ATM is located in the bank's foyer and is available 24 hours per day; the second ATM is located in the foyer of a nearby retail center and is available daily from 7:00 a.m. to 9:00 p.m. In addition, the bank offers services through its 24-hour TeleBanker service, which allows bank customers access to their accounts at any time, day or night. The bank has not opened or closed any offices since the last evaluation.

According to the September 30, 1997, Report of Condition ("ROC"), the bank had total assets of approximately \$41.6 million. Since the last evaluation, the bank's total assets have remained stable, fluctuating from a low of \$38.9 million as of September 30, 1996, to a high of \$42.0 million as of December 31, 1996. Since March 31, 1996, net loans have increased approximately \$2.8 million, or 18.9%. During the same time period, deposits decreased approximately \$3.8 million, or 10.8 %. The bank's quarterly average net loan-to-deposit ratio since the last evaluation is 48.9%. The September 30, 1997, net loan-to-deposit ratio is 54.8%. The larger net loan portfolio and higher net loan-to-deposit ratio evidence both the local demand for credit and the bank's willingness and ability to assist in meeting the credit needs in its assessment area.

The bank's loan portfolio is composed of approximately 58.8% agricultural, 21.6% consumer real estate, 12.0% commercial, and 7.6% consumer loans. The composition of the loan portfolio has shifted slightly since the last evaluation when agricultural loans represented 51.4%, consumer real estate loans represented 23.0%, commercial loans represented 18.8%, and consumer loans represented 6.8% of the loan portfolio. The bank's loan mix reflects the demand for specific types of loans requested by people, businesses, and farms in the assessment area.

The bank offers a variety of loan products to fulfill the credit needs of people, businesses, and farms within its assessment area. It extends the following types of loans: consumer, residential real estate, mobile home, commercial, and agricultural. In addition to these conventional loan products, the bank accepts applications and assists in closing loans guaranteed by the Federal Housing Administration, Department of Housing and Urban Development, Montana Board of Housing, and Montana Board of Investment. It also offers loans through Small Business Administration programs.

DESCRIPTION OF WESTERN BANK OF WOLF POINT'S ASSESSMENT AREA

The bank defines its assessment area as Daniels County, Roosevelt County Fort Peck Reservation Division, Roosevelt County City of Wolf Point Division, Valley County Fort Peck Reservation Division, and McCone County North Division. This area is further defined as block numbering areas (“BNA”) 9559 in Daniels County, 9511 and 9512 in Roosevelt County, 9550 in Valley County, and 9539 in McCone County. Two BNAs in the assessment area, 9511 and 9550, are designated as moderate income. The remaining three BNAs, 9559, 9539, and 9512, are designated middle income. There are no low- or upper-income BNAs in the assessment area. The bank is located in BNA 9512, a middle-income area on the Fort Peck Indian Reservation (“Reservation”) in northeastern Montana. Wolf Point is approximately 60 miles south of the Canadian border and 90 miles west of Williston, North Dakota. According to 1990

U.S. Census data, the assessment area's population is 13,537. Wolf Point, the county seat of Roosevelt County, is the largest city in the county with a population of 2,880.

CRA divides income levels into four categories: low, moderate, middle, and upper. Because the bank's assessment area is not in a metropolitan statistical area, the categorization of a borrower or BNA's income is determined relative to the statewide nonmetropolitan median family income. Low-income individuals have incomes of less than 50% of the statewide nonmetropolitan median family income, while moderate-income individuals have incomes of at least 50% but less than 80% of this amount. The regulation defines a middle-income person as one with an income of at least 80% but less than 120% of the statewide nonmetropolitan median income. An individual with an income that is 120% or more of this figure is considered an upper-income person. BNAs are classified using similar categories based on the level of the median family income in the geography.

As mentioned previously, two of the BNAs in the bank's assessment area are classified as moderate-income areas and three of the BNAs are classified as middle-income areas. As a percentage of statewide nonmetropolitan median family income, the moderate-income BNAs' median family incomes range from 58.4% to 72.1%, and the middle-income BNAs' median family incomes range from 80.2% to 87.9%. According to 1990 census data, the assessment area's median family income is \$21,767 and the median household income is \$19,068. According to the 1990 census data, the median family and household incomes for nonmetropolitan areas in Montana were \$27,352 and \$22,345, respectively. Of the 3,481 families in the assessment area, 32% are low income, 18% are moderate income, 21% are middle income, and 29% are upper income. Of the 4,518 households in the assessment area, approximately 30% are low income, 17% are moderate income, 19% are middle income, and 34% are upper income. The assessment area has relatively more low- and moderate-income households and families than Montana's nonmetropolitan areas. Approximately 24% of the families and 26% of the households have incomes below the poverty level.

According to the 1990 U.S. Census data, the composition of the assessment area's moderate-income BNAs is 39% low-income families, 17% moderate-income families, and 44% middle- and upper-income families. The figures for households in the moderate-income BNA are 35%, 17%, and 48%, respectively. Approximately 33% of the moderate-income BNA's households have incomes below the poverty level.

Examiners contacted a member of a business and labor group familiar with community development and credit needs in the assessment area. Recent contacts made in conjunction with a CRA evaluation of another Federal Reserve System member bank were also reviewed. Information obtained from the community contacts along with information received from bank management was used in evaluating the bank's CRA performance.

Agriculture is the dominant industry within the assessment area, and production consists primarily of small grains and beef cattle. The local economy is also

influenced by the Reservation, which occupies nearly 80% of the total land in Roosevelt County. Major area employers are the local hospital, school district, government offices, and the Reservation tribes, Fort Peck Community College, and Fort Peck Housing Authority. According to a community contact, current economic conditions are fair and stable. The 1997 small grain crops suffered some damage from wind and hail during the growing season, but yields were ahead of 1996 and better than the previous five-year averages. Beef prices were low in 1996 but improved in 1997. The existing herds are reported in good to excellent condition.

According to 1990 census data, the assessment area has 5,518 total housing units. Of these, 55% are owner-occupied units, 27% are rental units, and the remaining 18% are vacant or boarded up. In the assessment area's moderate-income BNAs, 56% of the housing units are owner-occupied, and in the middle-income BNAs, 54% are owner-occupied. A community contact indicated there is an adequate number of existing single-family homes available to purchase and residential loan needs are being met. One contact noted there might be a shortage of single-family rental homes; however, the contact stated there is a sufficient number of existing multifamily units available to meet rental needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs of its assessment area is satisfactory. Much of the analysis on the following pages was based on a statistical sample of 69 residential real estate loans originated in the 18 months preceding the evaluation as well as 85 consumer and 90 small farm and business loans originated in the six months preceding the evaluation. The criteria discussed below were reviewed in determining the bank's CRA rating. In assigning the overall rating, the greatest weight was placed on the assessment of lending to borrowers of different income levels and to farms and businesses of different sizes as well as the geographic distribution of loans. These two factors most closely measure the bank's efforts to meet the credit needs of its community.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio meets the standards for satisfactory performance based on loan demand, the lack of any identified unmet credit needs, and a comparison to national peers and local competitors. Since the previous evaluation, the quarterly average of the bank's net loan-to-deposit ratio is 48.9%. According to the September 30, 1997, ROC, the bank's net loan-to-deposit ratio is 54.8%. The following chart, based on quarterly ROC data, shows an upward trend, subject to quarterly fluctuations, in the net loan-to-deposit ratio. The fluctuations are not unusual for a bank with a large percentage of its loan portfolio in agricultural credits. Since the last evaluation, deposits have slightly decreased, which is attributed partially to the seasonal needs of agricultural customers and to the highly competitive banking environment.

DEPOSITS	NET LOANS	NET LOAN-TO-
----------	-----------	--------------

DATE	(In Thousands)	(In Thousands)	DEPOSIT RATIO
September 30, 1997	\$31,731	\$17,398	54.8%
June 30, 1997	\$31,617	\$17,253	54.6%
March 31, 1997	\$35,776	\$15,581	43.6%
December 31, 1996	\$36,320	\$16,814	46.3%
September 30, 1996	\$33,463	\$16,978	50.7%
June 30, 1996	\$32,423	\$16,682	51.5%
March 31, 1996	\$35,580	\$14,627	41.1%

According to the most recent Uniform Bank Performance Report (“UBPR”) data available (June 30, 1997), the bank’s 54.6% net loan-to-deposit ratio is below its national peer group average of 64.4% and places it in the 26th percentile of its peer group. The June 30, 1997, UBPR also shows that the bank’s net loan-to-assets ratio of 43.9% is lower than similarly sized banks operating in Montana. Banks with assets between \$25 million and \$100 million had an average net loan-to-assets ratio of 64%. The data show the bank commits relatively fewer assets to loans than similarly sized banks in Montana. Management indicated bank competition in the local area is very intense and loan growth is a long, slow process. The following chart shows the total asset size and quarterly average net loan-to-deposit ratio for the bank and some of its local competitors. The bank’s average loan-to-deposit ratio exceeds that of two competitors and is below that of three others.

BANK	TOTAL ASSETS (As Of June 30, 1997) (In Thousands)	QUARTERLY AVERAGE NET LOAN-TO-DEPOSIT RATIO
Western Bank of Wolf Point Wolf Point, Montana	\$39,302	48.0%
First Community Bank Glasgow, Montana	\$107,357	60.3%
Traders State Bank of Poplar, Montana Poplar, Montana	\$26,157	45.1%
The Citizens State Bank of Scobey Scobey, Montana	\$34,252	62.9%
First State Bank of Froid Froid, Montana	\$12,180	46.0%
Valley Bank of Glasgow Glasgow, Montana	\$19,524	78.1%

As stated previously, the competition among financial institutions in the assessment area is intense, although no other institution has its main office in Wolf Point. Despite this competition, the bank's quarterly net loan-to-deposit ratios have been increasing. Information received from a community contact did not indicate that there are any unmet credit needs in the assessment area. Based on the strong competition for loans, limited loan demand in the assessment area, the lack of any identified unmet credit needs, and competitors' quarterly average net loan-to-deposit ratios, the bank's net loan-to-deposit ratio meets the standards for satisfactory performance in this category.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

A review of the statistical sample of consumer and small farm and business loans originated by the bank in the 6 months preceding the evaluation and residential real estate loans originated by the bank in the 18 months preceding the evaluation reveals that the bank made a significant majority of its loans inside the assessment area. The following table illustrates the percentage of loans within the assessment area based on total number and loan amount in each major loan category.

Loan Type	LOANS IN THE ASSESSMENT AREA Total Number of Loans	Total Amount of Loans
Consumer	94%	93%
Residential Real Estate	88%	85%
Small Farm and Business	94%	90%

As the table shows, a significant majority of the bank's loans were made within the bank's assessment area. Based on the high concentration of lending within the assessment area, the bank exceeds the standards for satisfactory performance in this category.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS AND TO BUSINESSES OF DIFFERENT SIZES

The bank's level of lending to individuals of different income levels and to businesses of different sizes is reasonable and meets the standards for satisfactory performance. As previously mentioned, CRA groups income levels into four categories: low, moderate, middle, and upper. According to 1990 census data, the median family and household incomes for the bank's assessment area were \$21,767 and \$19,068, respectively. Both figures are below the statewide nonmetropolitan median family and household incomes of \$27,352 and \$22,345, respectively. The updated 1997 median family income for Montana's nonmetropolitan areas is \$36,100; this figure is used to classify the bank's borrowers by income levels.

As previously stated, this performance evaluation is based on a statistical sample of 85 consumer loans, 69 residential real estate loans, and 90 small farm and business loans. However, for loans in the assessment area, income data was available for only 13% of the consumer and 61% of the residential real estate loans in the sample. Based on the 37 residential real estate loans for which income data was available, 16% were made to low- and moderate-income borrowers, 41% to middle-income borrowers, and 43% to upper-income borrowers. The bank originated 5% of the total amount of residential loans to low- and moderate-income people, 36% to middle-income people, and 59% to upper-income people. Low- and moderate-income families and households represent 50% and 47% of the assessment area's population, respectively. Approximately 24% of the families and 26% of the households have incomes below the poverty level. Although the poverty level data is not segregated by income level, the number of families and households with incomes below the poverty level probably reduces the pool of creditworthy low- and moderate-income loan applicants. In addition, median gross rent in the assessment area is low, less than \$275, which may limit demand for real estate loans among low- and moderate-income people.

The statistical sample of the consumer loans revealed that the average loan amount was less than \$3,000, indicating that the bank is willing to make small dollar amount loans to creditworthy consumers.

The limited income data available made the analysis of income distribution for consumer and residential real estate loan borrowers of little value. Therefore, the bank's performance in this category will be primarily based on the small farm and business loan data.

Small farm and business loans comprise approximately 71% of the bank's loan portfolio. All of the small farm and business loans in the bank's assessment area were to borrowers with gross annual revenues of \$1 million or less. In addition, 95% of the small farm and business loans were for amounts less than or equal to \$100,000. Only one small business loan was for an amount greater than \$250,000. The concentrated distribution of small farm and business loans to entities with gross annual revenues of \$1 million or less appears to reflect the business and farm market in which the bank operates.

Overall, the bank's emphasis on lending to small farms and businesses meets the standards for satisfactory performance. This conclusion is based on the available income data for consumer, residential real estate, and small farm and business borrowers. The lack of income data for a substantial number of consumer and residential real estate loans limited the analysis of the income distribution of the bank's consumer and residential real estate borrowers.

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of the bank's loans throughout its assessment area is reasonable. As previously discussed, the bank's assessment area includes two moderate-income and three middle-income BNAs. As a percentage of statewide nonmetropolitan median family income, the moderate-income areas' median family incomes range from 58.4% to 72.1% and the middle-income areas' median family incomes range from 80.2% to 87.9%. According to 1990 census data, the assessment area's median family income was \$21,767 and the median household income was \$19,068. The median family and household incomes for nonmetropolitan areas in Montana were \$27,352 and \$22,345, respectively. As previously discussed, low- and moderate-income families and households in the assessment area's moderate-income BNAs comprise more than a majority of those BNAs' populations. Further, approximately 33% of the households in the moderate-income BNAs have incomes below the poverty level. The comparable figure for the assessment area's middle-income BNAs is 20%. The significant difference between the relative number of households with incomes below the poverty level in the assessment area's moderate- and middle-income BNAs is one factor that affects the bank's ability to extend loans in the moderate-income BNAs.

The bank is located in BNA 9512, a middle-income tract. Consequently, the bank originated a large majority of its consumer and residential real estate loans to residents of BNA 9512. It originated a majority of the small farm and business loans in BNAs 9512 and 9539, both middle-income tracts. This is reasonable as U.S. Highway 2 runs along the northern border of BNA 9539; the community contact stated that residents and businesses are concentrated along Highway 2. The section of BNA 9539 south of Wolf Point and Highway 2 principally consists of ranches and agricultural lands. In addition, Wolf Point banks are closer to many sections of this BNA than other financial institutions. These factors explain the concentration of small farm and business loans in BNA 9539.

Representing 40% of the assessment area's total population, BNA 9511, a moderate-income area, has the largest population of all the BNAs in the bank's assessment area. However, BNA 9511's population centers are generally in the southeastern section of the geography where there is stiff competition from other financial institutions. Borrowers in the southeastern section of BNA 9511 would probably not travel to Wolf Point for bank services. The same is true for people located in BNA 9550. Many of BNA 9550's residents would not travel to Wolf Point for banking services given the location of other financial institutions inside and outside the assessment area. Therefore, it is reasonable that the percentage of consumer and residential real estate loans in BNAs 9511 and 9550 would be

smaller than the percentage of the same type of loans in the BNAs 9512 and 9539.

The following table illustrates the distribution of loans by BNA income level.

DISTRIBUTION OF LOANS IN THE ASSESSMENT AREA *		
BY BNA INCOME LEVEL		
Loan Type	Moderate-Income BNAs	Middle-Income BNAs
<u>Consumer</u>		
Total Number of Loans	29%	71%
Total Amount of Loans	31%	69%
<u>Residential Real Estate</u>		
Total Number of Loans	26%	74%
Total Amount of Loans	22%	78%
<u>Small Farm and Business</u>		
Total Number of Loans	39%	61%
Total Amount of Loans	53%	47%
*The assessment area has no low- or upper-income BNAs.		

A tract-by-tract analysis reveals that the bank's loans are reasonably distributed throughout the assessment area's moderate- and middle-income BNAs. The moderate-income area's populations are concentrated in areas where competitor financial institutions have established offices. Given the distance between the bank and the moderate-income BNAs' population centers as well as the location of competitor financial institutions, the bank's limited loan activity in BNAs 9511 and 9550 is not unreasonable. Conversely, the higher concentration of loans in the middle-income BNAs is reasonable based on the concentration of people, businesses, and farms in these areas and their proximity to the bank.

Based on the distribution of the bank's loans throughout the assessment area, the lack of unmet credit needs, the concentrations of the residents, and competition from other financial institutions, the bank meets the standards for satisfactory performance in this category.

GENERAL

The evaluation did not reveal any substantive violations of fair lending laws and regulations. However, it did reveal a technical violation of Regulation B's monitoring information provisions. Bank management promised prompt corrective action. In addition, the bank has not received any CRA complaints since the previous evaluation.

PUBLIC DISCLOSURE

October 28, 1997
Date of Evaluation

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Western Bank of Wolf Point
Name of Depository Institution

093010900000
Identification Number of Institution

Wolf Point, Montana
Address of Institution

Federal Reserve Bank of Minneapolis
90 Hennepin Avenue, P.O. Box 291
Minneapolis, Minnesota 55480-0291

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.